

Illinois LDC – Gas Supply

Illinois Commerce Commission 2017-2018 Winter Preparedness Policy Session

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Introduction

Statements in this report are generally indicative of the following Illinois utilities:

- Ameren Illinois
- MidAmerican Energy Company
- Nicor Gas
- North Shore Gas
- Peoples Gas



Gas Supply Planning Objectives

- Provide safe, reliable and economic natural gas service to our customers
- Contract for transportation, storage, balancing and peaking services capable of meeting forecasted peak design day while economically serving normal and warm weather demand
- Maintain a diversified capacity and supply portfolio by supply basin/market center, pipeline, producer and pricing structure
- Optimize capacity and supply resources to minimize costs for PGA customers
- Engage in hedging to provide insurance against price spikes

Winter 2016/2017 System Send-out (MMBtu)

	<u>High Day</u>	<u>Low Day</u>	<u>Average Day</u>
Nicor Gas	3,765,600	664,221	1,976,294
Ameren IL	1,209,629	286,352	647,356
Peoples Gas	1,445,662	178,605	748,817
North Shore	295,923	38,004	150,768
MidAmerican	95,206	11,191	45,522
Total	6,812,020	1,178,373	3,568,757

2017/2018 Forecasted Peak Design Day and Resources (MMBtu)

	<u>Projected Design Day Send-out *</u>	<u>Pipeline Transport & Storage</u>	<u>On-system Storage (Including LNG)</u>	<u>Expected 3rd Party Deliveries</u>
Nicor Gas	5,522,088	2,422,929	2,550,000	549,159
Ameren IL	1,681,572	745,691	558,759	377,122
Peoples Gas	2,065,081	802,576	1,037,363	225,142
North Shore	449,570	383,295	20,000	46,275
MidAmerican	152,221	116,857	16,260	19,104
Total	9,870,532	4,471,348	4,182,382	1,216,802

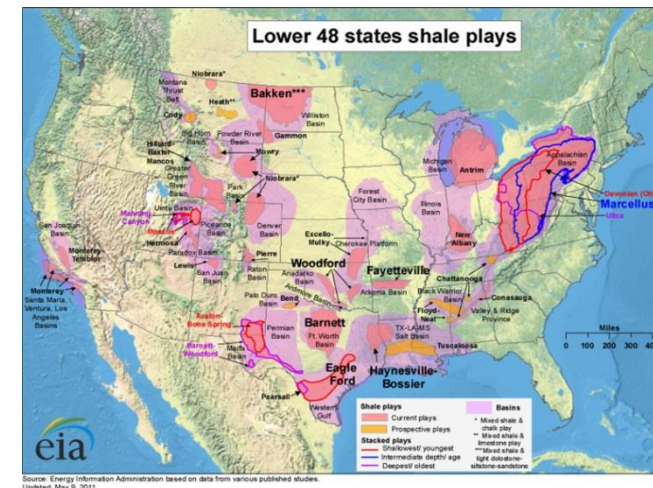
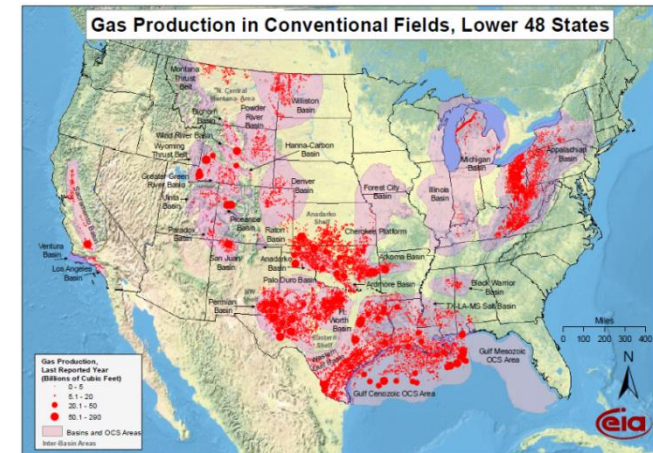
* Includes reserve margin

Gas Supply Strategy

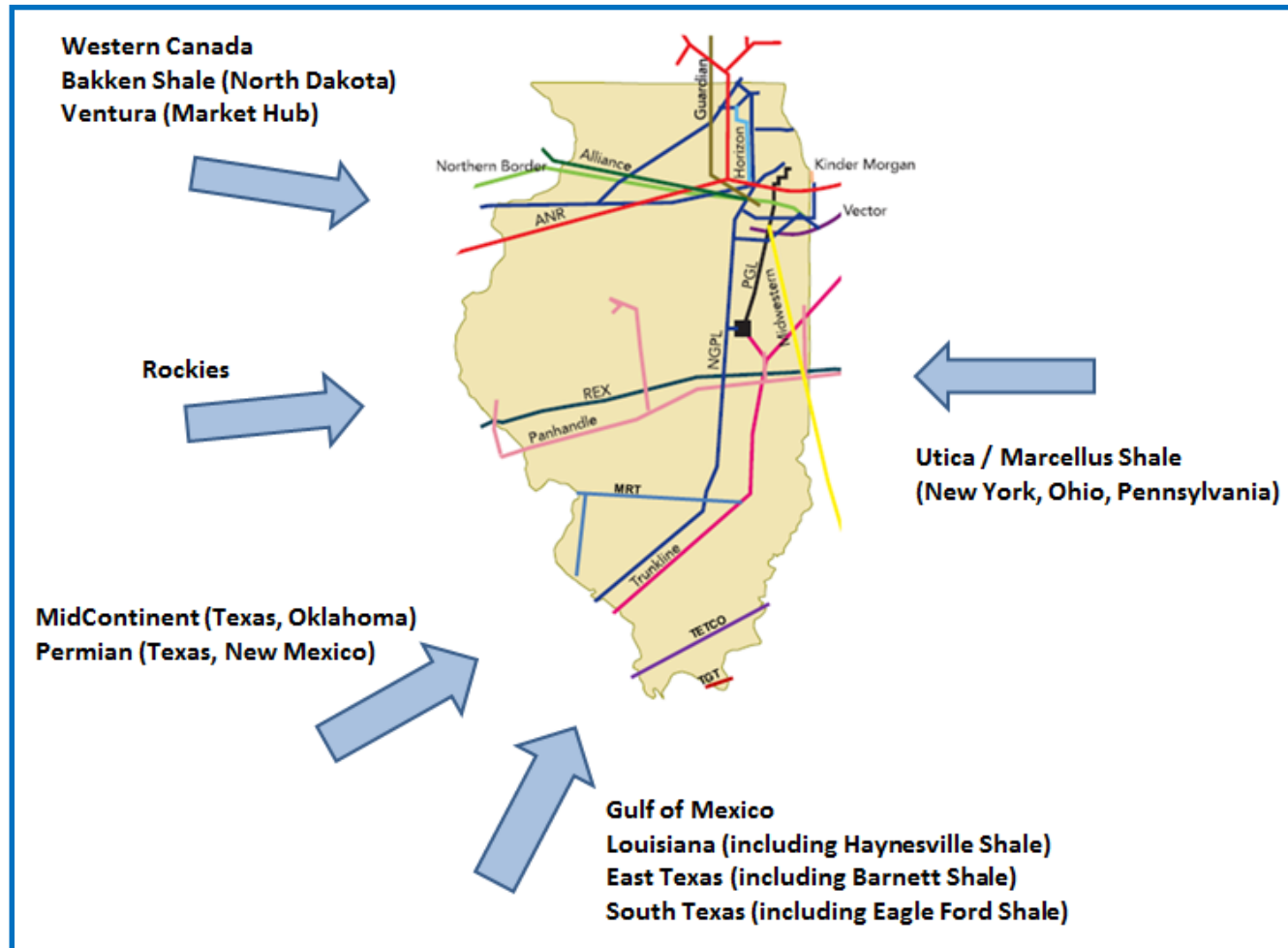
- 100% of firm gas supply requirements for winter periods purchased under firm contracts; competitive bidding for seasonal supply
 - Seasonal baseload purchases; monthly index pricing
 - Seasonal peaking supply purchases; daily index pricing
- Majority of firm gas supply purchased from major producers/marketers such as Anadarko, BP Energy, Chesapeake, Chevron, ConocoPhillips, Macquarie, Oneok, Sequent, Shell and Southwestern Energy; who demonstrate credit worthiness and access to supply
- Forward planning and procurement cycle
 - Transportation and storage secured under long-term contracts
 - Right of first refusal

Gas Supply Strategy

- Firm transportation capacity back to major production basins and liquid market centers in the U.S.
 - Illinois utilities are in an advantageous location.
- Diversified access to conventional production basins: Midcontinent, Gulf Coast, East Texas, South Texas, Louisiana, Rockies, and Canada
 - Access to shale plays including Fayetteville, Haynesville, Barnett and Bakken; increased access to Utica and Marcellus shale with addition of new infrastructure
- Leverage capacity resources on interstate pipelines



Illinois Access to Natural Gas Supply



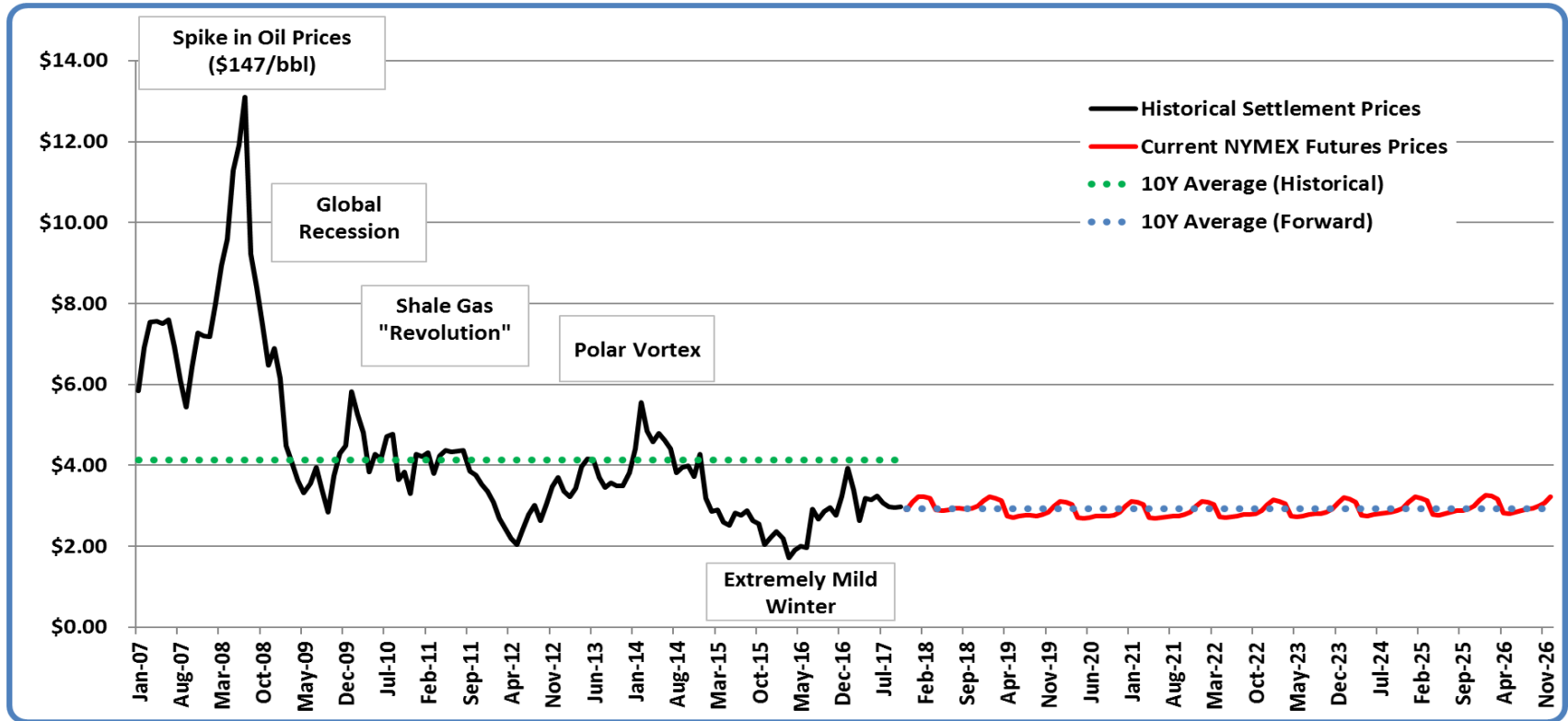
New Infrastructure to Illinois Markets

<u>Project</u>	<u>Capacity</u>	<u>In-Service Date</u>
REX projects	2.6 Bcf/d	September 2016
NGPL Chicago Market Expansion	238,000 MMBtu/d	November 2016
Rover Pipeline Project	Phase I 0.75 Bcf/d Phase II 2.5 Bcf/d	September 2017 Q1 2018
Nexus Pipeline Project	1.5 Bcf/d	End of 2017

Pipeline Investment within Illinois

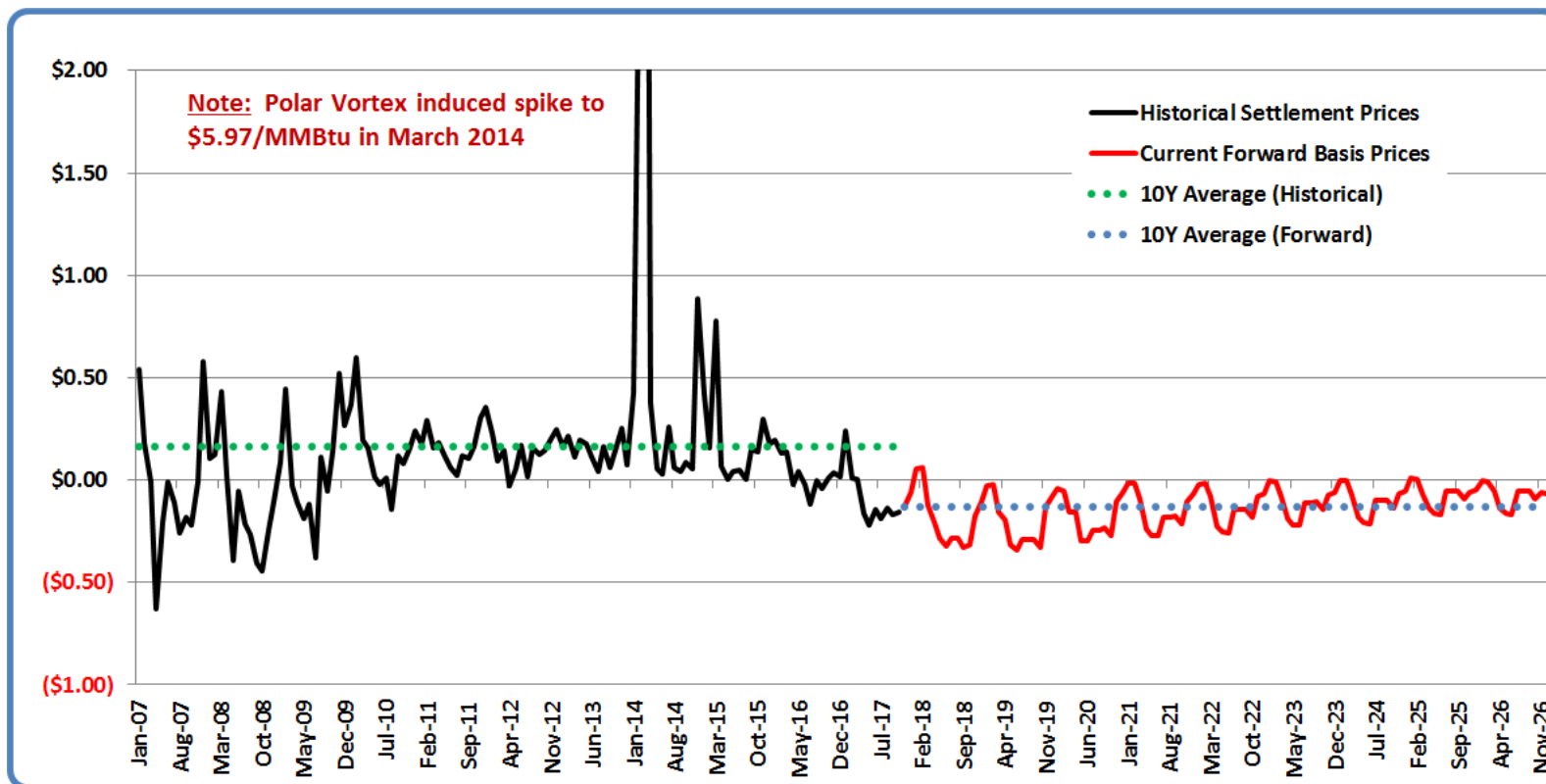
<u>Project</u>	<u>Investment</u>	<u>In-Service Date</u>
REX projects	~\$15 million	September 2016
NGPL Chicago Market Expansion and Loudon Storage	\$93 million	November 2016
Panhandle and Trunkline Reversal	\$38 million	October 2017
Spire St Louis Pipeline	\$140 million	November 2018

Natural Gas Futures Pricing



	November	December	Janaury	February	March	Average
2016/17	\$2.764	\$3.232	\$3.930	\$3.391	\$2.627	\$3.189
2017/18	\$2.895	\$3.085	\$3.217	\$3.222	\$3.176	\$3.119
Difference	\$0.131	-\$0.147	-\$0.713	-\$0.169	\$0.549	-\$0.070
% Difference	4.7%	-4.5%	-18.1%	-5.0%	20.9%	-2.2%

Chicago Natural Gas Pricing (Spread Between Chicago Index and NYMEX Futures)



- Prices for natural gas at the Chicago Market Hub have steadily declined versus Henry Hub natural gas futures with the advent of new supplies from the Utica and Marcellus Shale plays
- Chicago prices averaged \$0.16 above futures prices over the past ten years while forward prices for the next ten years currently average \$0.13 below futures prices

Price Risk Hedging Strategy

- Hedge target of 50-75% of normal winter demand against market price volatility
 - Hedge transactions generally executed ratably up to a 36 month horizon prior to each winter; layer-in price hedge positions over time “Dollar-Cost-Average”
- Primary methods to hedge system supply:
 - Storage inventory
 - Fixed price physical supply
 - Financially settled options and swaps (over-the-counter or cleared)
 - Fixed/Float swaps
 - Basis swaps
 - Call options
 - Collars
 - Exchange traded futures and options contracts (NYMEX and ICE)
- Target at least 30-50% of gas supply during normal winter from storage
- Financial transactions provide liquidity and diversification of credit risk

Current Winter Preparations

- Storage inventories will be within planned operating levels at the start of winter except for a few fields that have a normal fill target of mid-November/mid-December
- Seasonal firm gas supply acquisition for winter period is essentially complete
- Price hedging for winter 2017/2018 period is largely complete
- Interstate pipeline capacity to meet peak design day has been secured under firm agreements

Summary

- Gas supply acquisition and price hedging are nearly complete, and storage injections are on schedule for this coming winter
 - Prepared for extremes-warm or cold-and everything in between
- Expect higher usage of natural gas this winter season
 - 75% of annual customer usage occurs during the heating season
 - Natural gas usage is highly dependent on temperature; last winter was 14% warmer than normal; consecutive warm winters may reset bill expectations. Normal winter weather will result in a higher home heating costs than last year.
- Expect similar prices this winter compared to last year
 - Current natural gas futures prices are consistent with last winter
 - Hedging, storage and other factors will mitigate rate impacts of any winter price spikes